

City of Detroit


CITY COUNCIL

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TO: John W. Prymack, Director
Greater Detroit Resource Recovery Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: April 25, 2011

RE: 2011-12 Budget Analysis

Attached is our budget analysis regarding your agency's budget for the upcoming 2011-12 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Wednesday, April 27, 2011 at 11:00 a.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Thomas Lijana, Finance Director
Floyd Stanley, Budget Deputy Director
Charleta McInnis, Budget Department
Denise Gardener, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2011-12 Budget Analysis by the Fiscal Analysis Division

Mayor's 2011-12 Recommended Budget: The recommended budget has moved the five positions for the Greater Detroit Resource Recovery Authority from Non-Departmental to the Department of Public Works, Solid Waste Fund activity. In addition the tipping fee budget included in the Solid Waste Fund is \$14.1 million.

History: The City of Detroit/Resource Recovery Agreement specifically mandates that "the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . ". It further states that " the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees." (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City's obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority's Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority's administrative expenses plus debt service, less the authority's revenues.

Issues and Questions

1. The last page of this report contains a spreadsheet that details the operating budget for the Greater Detroit Resource Recovery Authority (GDRRA) and compares the current year with the recommended budget. This level of detail has been supplied in the past to justify the tipping fee. Please provide Council with the GDRRA 2011-12 Budget that supports the tipping fee of \$14.1 million requested in the Department of Public Works 2011-12 Mayor's Recommended Budget.

2. In addition to the solid waste from the city, who else is providing solid waste to the facility? Provide a three year comparison of the amount of waste from each source, and the cost to the entity for disposal services. Include the estimated amounts and cost for 2010-11. Include a list of GDRRA's current customers, with tipping or other fees that GDRRA or the operator is charging for solid waste disposal services.
3. The GDRRA is required to maintain tipping fees for the solid waste from the City of Detroit at or below the cost to land fill the solid waste. When was the last time land fill bids requested and reviewed? How often is GDRRA required to request and review land filling prices?
4. Can GDRRA provide Council with the signed and executed documents that indicate that the City of Detroit is entitled to the \$20 to \$26 million that exists in the "escrow" account? Explain to Council the status of the escrow account and the exact balance in the account.
5. What was the June 30, 2010 operating results for the GDRRA?
6. The 2009-10 Budget included a Pilot Recycling Program. Describe the progress on the implementation of the program. Benchmark the results of this pilot program to national averages.
7. What is the status of any plans or negotiations for GDRRA's purchase of an ownership interest in the incinerator? Is there any new sale/leaseback type transaction under consideration? If so, how would it be structured and when would it be completed?
8. Is the City bound by any contracts made by GDRRA with any other parties? Or is the only contract between the City and GDRRA for the disposal of solid waste? What specifically does the contract between the City and GDRRA require? What are the rates in that agreement for the disposal of solid waste?
9. If there are GDRRA agreements in existence with third parties that include legal commitments with the City how was the City approval or acceptance of the commitment secured? If the commitment resulted by action of the GDRRA board, how can the board commit the city without legislative approval?
10. Are any other parties to the GDRRA transactions demanding that the City guarantee municipal solid waste deliveries to the resource recovery facility as a condition of the agreement? If so, what is the City's position on the enforcement of these provisions?
11. Provide a business case including specific figures, volume processed by source, revenue sources, agreement rates and documentation to support whether or not the facility can be operated at a profit going forward, with and without participation of the City of Detroit.

12. Provide a detailed explanation citing specific provisions of the 1991 sale/leaseback transaction documents, or other relevant documents including the new agreements entered into in 2009 or 2010, on the owner's ability to enforce a requirement that the City of Detroit provide municipal solid waste to the facility. What is the requirement that the cost to the city in total to dispose of solid waste at the facility must match the cost of alternatives including using a land fill? Provide the details that show city costs are not exceeding land filling costs?
13. The facility was constructed quite a while ago and we believe it was built for a much larger stream of solid waste disposal than can be currently provided by the city. At what level of capacity is the facility being operated? What benefits or drawbacks does operating the facility at this level have?
14. Provide Council with GDRRA's business plan for the next 1, 5, and 10 year period.
15. Under the current ownership/operating structure of the Resource Recovery Facility who is responsible for capital improvements? What is the life expectancy of the facility in its current condition? When would major capital improvements be required to extend the operating life of the facility?
16. Has there been any study as to what sort of additional infrastructure would be needed for the plant to handle DWSD's waste? Is GDRRA considering contracting for DWSD's waste?

IC:JGP

Attachment

**Greater Detroit Resource Recovery Authority
Operating Budget Request**

	2009-10 <u>Budget</u>	2010-11 <u>Recommended</u>	<u>Inc/(Dec)</u>	% <u>Inc/(Dec)</u>
Expenses:				
Net Debt Service	\$ -	\$ -	\$ -	N//A
Net APC Debt Service	-	-	-	N//A
Total Debt Service	-	-	-	N//A
Less: 1996 A & B Bond Reserve	-	-	-	N//A
Debt Service after Use of Reserve	-	-	-	N//A
Labor and Plant Maintenance	21,188,335	\$ -	(21,188,335)	-100.00%
Contractual Services/Other Costs	3,864,951	-	(3,864,951)	-100.00%
Sales Taxes and Add'l Oper. Revenue	3,970,781	-	(3,970,781)	-100.00%
Lime Addition	1,417,584	-	(1,417,584)	-100.00%
Purchased Electricity	471,770	-	(471,770)	-100.00%
Other Fuels	1,361,605	-	(1,361,605)	-100.00%
Water	845,848	-	(845,848)	-100.00%
Sewerage	2,015,109	-	(2,015,109)	-100.00%
Electrical Intertie Maintenance	156,357	-	(156,357)	-100.00%
Steamline Maintenance	1,022,975	-	(1,022,975)	-100.00%
Insurance	1,565,461	-	(1,565,461)	-100.00%
Supplemental Taxes	1,439,089	-	(1,439,089)	-100.00%
Hauling and Disposal Costs	18,579,267	14,219,075	(4,360,192)	-23.47%
Authority Administrative	2,326,156	2,396,284	70,128	3.01%
Escrow Fee (Authority)	1,113,204	-	(1,113,204)	-100.00%
Deficit Reduction Contribution	-	-	-	N//A
TOTAL EXPENSES	\$ 61,338,492	\$ 16,615,359	(44,723,133)	-72.91%
Revenues:				
Steam Sales	24,050,000	-	(24,050,000)	-100.00%
Electricity Sales	12,346,382	-	(12,346,382)	-100.00%
Operators Energy Revenue	(5,459,459)	-	5,459,459	-100.00%
Investment Earnings	-	-	-	N//A
Private Hauler Fees	5,192,388	-	(5,192,388)	-100.00%
Recovered Material	1,920,612	-	(1,920,612)	-100.00%
DTE Escrow Fund	-	-	-	N//A
TOTAL REVENUES	\$ 38,049,923	\$ -	(38,049,923)	-100.00%
TIPPING FEE	\$ 23,288,569	\$ 16,615,359	(6,673,210)	-28.65%
Est. year end payable portion shortfall 2009-2010	\$ 6,043,881	\$ 5,956,697		